



PETITION FOR RELIEF

presented to
THE DISTRESSED UNIT APPEALS BOARD

BUDGET YEAR 2011

Honorable Mayor Rudy Clay

PETITION FOR RELIEF AGENDA

- INTRODUCTION
- RECENT FINANCIAL SITUATIONS
- 2010 MAJOR EXPENDITURE REDUCTION
- 2010 PFM INITIATIVES
- COUNCIL APPROVED 2011 BUDGET
- 2012 PROPOSED BUDGET
- GRANT AWARDS
- DEPT. OF REDEVELOPMENT AND TIF
- ECONOMIC DEVELOPMENT
- OUTSTANDING DEBT
- SUMMARY

INTRODUCTION

- The City of Gary, Indiana is seeking assistance from the Distressed Unit Appeals Board pursuant to I.C. 6-1.1-20.3-6 et. seq. Relief from the application of the credit against tax liability established under I.C. 6-1.1-20.6 and as also set forth in H.B. 1001 (2008) is sought in order to ensure the continuation of, as far as possible, basic services to the citizens of Gary.
- Under the provisions of I.C. 6-1.1-20.6, the City of Gary would have been required to reduce its tax levy in the amount of \$30 million in 2009 and \$36 million in 2010. Using these figures, the City would have needed to reduce its budget by nearly 57% from its 2008 level within two years.

INTRODUCTION, cont'd

- Although the City has reduced its levy for 2010 to \$47.8M from the \$63M levy in 2008, without additional relief for 2011, the city would have to shut down the majority of City operations and would be unable to provide services other than public safety protection. Public Safety would operate at even a lower capacity, than the proposed reduced level for 2011. The proposed property tax levy for 2011 is \$41.1M, which consist of a reduced \$39M from the City and a \$2M property tax levy shift from Gary Sanitary District.
- In order to comply with the requirements of this law as they are currently promulgated, the City hereby provides the Distressed Unit Appeal Board with a continuation of its financial plan covering a 2 year period as a phase-in of the tax caps established by the law.
- This plan is submitted with the understanding that as long as the entirety of these cuts is required, whether in 2010 or 2012, the City of Gary faces fiscal devastation that will affect not only its residents, but the surrounding communities and the State as well.

2010 FINANCIAL SITUATION

- The City borrowed \$8.5M to offset the shortfall from an Auditor's error in property tax distributions for 2009. The loan will be repaid from Casino revenues.
- The City ended the 2009 year with a deficit, largely due to a poor property tax collection rate. It is also projected the year 2010 will end with a similar deficit due to delayed property tax distributions.
- The City was unable to obtain 2010 General Fund TAWs at 80% for the second distribution from Indiana Bond Bank. We were able to secure TAWs at only 67%. The County was unable to provide the Indiana Bond Bank and the City with the collection rate from provisional tax bills sent out in 2010, which contributed to the lower rate of TAWs available to the City.
- The City was unable to obtain the second TAW for Parks Department.

2010 FINANCIAL SITUATION, cont'd

HEALTH INSURANCE

Health insurance has not decreased from \$10M to \$5M as projected by PFM after implementation of recommended initiatives. In addition, the prior HMO provider projected a rate increase for 2011 of 28%. As a result, the City explored other options to assist in this tremendous financial responsibility:

- The City is involved in a study with Midwest Business Group on Health to address Health Data Management and Impacts in a Value Based Benefits Environment
- The City bid out its medical health insurance services and made a change to avoid the extreme rate increase for 2011. This change includes now self-funding the HMO along with the already self-funded PPO with Professional Claims Management.

2010 MAJOR EXPENDITURE REDUCTION

UTILITIES

Utilities have always been a major expense for the City, especially telephone, gas and electric. PFM recommended that processing of utility bills is transferred to the Finance Department. The Finance Department audited each phone bill that was transferred to the department. In this process we discovered several billing errors or abnormalities that resulted in the telephone company crediting the City over \$89,000. As a result of the audit, the Finance Department has also established new procedures for turning on and turning off utilities and new authorized signatures. Monthly bills have been lowered by \$10,000.

The Finance Department anticipates conducting similar audits with the transition of electric and gas bills in the coming year.

2010 PFM INITIATIVES

- The City has either implemented initiatives suggested by PFM or developed a similar alternative for 2010. Below is a list of **MONETARY** initiatives that have been implemented:
 - Continuation of 5% Reduction in Employee Salaries \$50,000 and Above
 - Continuation of Multi-year Wage Freeze
 - Continuation of Furlough Days (10) for 2011
 - Attempted to Transfer Animal Control to County. County rejected request. City made alternative adjustment in General Fund.
 - Overtime Reduction for Public Safety - reduced General Fund by \$2,739,248 from 2008 to 2010
 - Reduced TAW Interests Mainly from Reduced Property Tax Levy
 - Added Professional Staff to Finance Department

2010 PFM INITIATIVES, cont'd

- Budgeted for Outstanding Judgements and Legal Bills; Adjusted Future Budget Appropriations
- Eliminated Human Relations from General Fund (reduced staff will operate on grant)
- Reinstated Uniform Allowance at Reduced Level (never eliminated, was paid from Public Safety Welfare Excess fund.) In 2011, will be paid from Gen. Fund at reduced amount of \$500, instead of \$1500
- Eliminated Board and Commission Compensations
- Fire Department Initiatives:
 - Fire Station Consolidation – Closed 3 of 14 stations
 - Transferred cost of Station 14 to Gary/Chicago International Airport and reduced number of firefighters stationed there from 15 to 8. Airport will contribute \$185,000.
 - Created replacement schedule for turn-out gear at 50 per year
 - Implemented fire report and hazardous material incident response fees

2010 PFM INITIATIVES, cont'd

- Shifted GSD millage to General Fund (partial)
- Health Department Initiatives:
 - Implemented alternative to reduced budget amount proposed by PFM and to continue to offer services within the City
 - Leveraged additional funding opportunities through current and additional grants
- Health Insurance Initiatives (may be impacted by new health care reform):
 - Restructured employee contributions to health premiums
 - Redesigned prescription drug program
 - Leveraged Medicare reimbursement for kidney dialysis
 - Increased major medical deductible
 - Increased emergency room co-pays from \$50 to \$100
 - Restructured and raised physician office visit co-pays
 - Changed spousal benefits (already in effect prior to PRM report)
 - Dependent eligibility audit (already in effect prior to PFM report)
 - Purchased excess insurance for worker's compensation at \$500,000
 - Claims have decreased from \$800,000 in 2008 to \$300,000 as of Dec.1 2010)

2010 PFM INITIATIVES, cont'd

- The City has either implemented initiatives suggested by PFM or developed a similar alternative for 2010. Below is a list of **NON-MONETARY** initiatives that have been implemented:
 - Avoid restrictions on Management Rights in Union Negotiations
 - Contained Post-Retirement Health Care Costs
 - Created Human Resources Prioritization Plan
 - Monitored and Reported Leave Accruals
 - Coordinated and Supported Regular Employee Evaluations
 - Eliminated General Services Department
 - Consolidated Park Maintenance with Parks & Recreation Department
 - Consolidated Legal Services in the Law Department and Increased Internal Capacity by Reducing Reliance on Outside Counsel

2010 PFM INITIATIVES, cont'd

- Increased Departmental Accountability for Claims, Judgements, and Settlements
- Increased Cost Recovery for Public Records Requests
- Meet New CMS reporting Requirements for Liability Claims (in progress)
- Finance Department Initiatives:
 - Revised Financial Reporting to Provide GAAP result (City was already GAAP Compliant in Reporting, Our financial system would not provide the reports)
 - Revised Financial reporting to Include Management Discussion and Analysis (included in 2009 Annual Audit)
 - Adopted an Investment Policy and Strategy for Bank Accounts & Banking Services
 - Developing Budgeting and Forecasting Capabilities
 - Communicating Financial Information in a Timely Manner on Website
 - Developing TAW, Inter-fund Loans, and Structural Balance Policies
 - Developing Revenue Manual, Adopted Policy to Review / Changed Fees on a Regular Cycle

2010 PFM INITIATIVES, cont'd

- Transferred Code Enforcement Position to Building Dept. (now part of Public Works)
- Modified Police Department's Comp Time and Modify Sick Leave Policies
- Bidding Building Service Contracts In Bulk
- Implemented Site Plan Review & Development Committee Fee
- Initiated an Alternative to Combining Police and Fire Commissions
- Fire Department:
 - Overhaul Sick Policy (in progress)
 - Strengthen Mutual Aid Agreements with Other Jurisdictions (in effect prior to PFM Report)
 - Created Vehicle Replacement for Fire Apparatus
 - Pursuing Grant opportunities for Fire Houses (grant ran out of funds), Safer Grant for Fire Personnel awaiting results), Assistance to Fire Fighters For Equipment (awaiting results)

2010 PFM INITIATIVES, cont'd

- Issued RFP for Traffic Control Operations (2 responses over \$1M each, used alternative to reduce costs to approximate amount proposed by PFM and sought consultant to restructure department and functions)
- Prioritized Street Maintenance
- Charged all Recycling Expenses to Recycling. Recycling Expenses Do Not Exceed Revenues (revenues have always exceeded expenses)
- Completed Vehicle Inventory Audit
- Drafted and Implemented a Vehicle Use Policy
- Conduct Regular Vehicle Utilization Reviews (on going)
- Fuel Site Reduction (in progress)

2010 PFM INITIATIVES, cont'd

- Community Development Initiatives:
 - Cease Funding of Redevelopment Activities until HUD Findings are Remedied (under HUD review)
 - Fund Code Enforcement Activities with Reprogrammed CDBG Funding (in progress)
- Redevelopment Department Initiatives:
 - Using Tax Increment Financing Funds More Efficiently
 - Shifted Management of Utility Services to Finance Department
 - Dissolved Small Farms and Washington Manor TIF Districts
 - Temporarily Released the Assessed values of Eight (8) Other TIF Districts
- Obtained Energy grant to invest in energy efficiency improvements
- Coordinate Brownfield Development with Other Economic Agencies
- Continue to Pursue Marquette Park Rehabilitation

2011 APPROVED BUDGET

GENERAL FUND

<u>ADMINISTRATIVE DEPARTMENTS</u>	<u>PFM RECOMMENDED</u>	<u>COUNCIL APPROVED</u>	<u>AMOUNT OVER/(UNDER)</u>
MAYOR	\$ 613,649.00	\$ 515,220.23	\$ (98,428.77)
LAW	\$ 1,466,194.00	\$ 1,287,149.80	\$ (179,044.20)
DIV OF PUBLIC WORKS	\$ 1,493,574.00	\$ 1,564,870.50	\$ 71,296.50
FACILITY MAINTENANCE	\$ 660,715.00	\$ 596,400.00	\$ (64,315.00)
HUMAN RELATIONS	\$ -	\$ -	\$ -
STATUS OF WOMEN	\$ 8,397.00	\$ -	\$ (8,397.00)
HEALTH DEPARTMENT	\$ 569,131.00	\$ 539,734.54	\$ (29,396.46)
ENVIRONMENTAL AFFAIRS	\$ 105,360.00	\$ 113,033.42	\$ 7,673.42
GENERAL SERVICES	\$ -	\$ -	\$ -
POLICE CIVIL SERVICE COMMISSIONS	\$ 88,330.00	\$ 108,739.26	\$ 20,409.26
POLICE DEPT	\$ 13,203,004.00	\$ 13,156,438.35	\$ (46,565.65)
POLICE SUPPORTIVE SERVICES	\$ 491,212.00	\$ 1,695,277.84	\$ 1,204,065.84
FIRE CIVIL SERVICE COMMISSIONS	\$ 117,641.00	\$ 102,962.51	\$ (14,678.49)
FIRE DEPARTMENT	\$ 10,455,255.00	\$ 11,335,422.73	\$ 880,167.73
EMERGENCY MEDICAL SERVICES	\$ 1,187,104.00	\$ 1,187,103.85	\$ (0.15)

2011 APPROVED BUDGET, cont'd

CIVIL DEFENSE	\$ 27,563.00	\$ 14,723.75	\$ (12,839.25)
YOUTH SERVICES BUREAU	\$ 3,588.00	\$ -	\$ (3,588.00)
VEHICLE MAINTENANCE	\$ 515,715.00	\$ 964,601.43	\$ 448,886.43
DIV. OF FINANCE, MIS, AND HR	\$ 2,098,077.00	\$ 1,532,024.63	\$ (566,052.37)
MEDICAL INSURANCE	\$ 4,940,199.00	\$ 7,370,000.00	\$ 2,429,801.00
CONSOLIDATED OPERATIONS	\$ 11,796,152.00	\$ 5,153,500.00	\$ (6,642,652.00)
SUBTOTAL	\$ 49,840,860.00	\$ 47,237,202.83	\$ (2,603,657.17)
ELECTED OFFICIALS			
CITY COUNCIL	\$ 902,519.00	\$ 837,402.54	\$ (65,116.46)
CITY COURT	\$ 765,827.00	\$ 1,379,785.42	\$ 613,958.42
CITY CLERK	\$ 806,282.00	\$ 1,114,525.75	\$ 308,243.75
SUBTOTAL	\$ 2,474,628.00	\$ 3,331,713.71	\$ 857,085.71
TOTAL GENERAL FUND	\$ 52,315,488.00	\$ 50,568,916.54	\$ (1,746,571.46)

2012 PROPOSED BUDGET

- The City of Gary plans to implement the 2012 PFM initiatives or alternatives to levy property taxes at \$30M and budgets of approximately:

\$46.7M for the GENERAL FUND

\$855,065 for the PARKS & RECREATION FUND

\$900,363 for the DEBT SERVICE FUND

\$745,944 for the CUMULATIVE CAPITAL DEV. FUND

GRANT AWARDS

- **DEMOLITION**

- NSP 1 - \$2,233,082

- 158 properties identified, 84 demolished to date.

- CDBG - \$1,093,103

- 100 properties demolished to date.

- CDBG-R - \$294,050

- 20 properties demolished to date.

GRANT AWARDS, cont'd

- **STREETS: CAPACITY EXPANSION & REPAIRS**

- STP - GROUP 1 - \$12.6M

- 3 streets identified and reconstructed

- ARRA - \$1,284,461

- 6 streets identified and resurfaced.

- CDBG-R - \$638,398

- 16 streets identified and resurfaced.

GRANT AWARDS, cont'd

- **VARIOUS**

- CMAQ - \$3,151,761

- 128 vehicles purchased (of which 100 are dedicated to police).

- MARQUETTE PARK REHABILITATION - \$28,190,000

- RDA-funded project to restore and reinvigorate park.

- CHRP - \$2,076,514

- DOJ-funded project to hire 11 additional police officers.

- ENERGY EFFICIENCY - \$935,200

- DOE-funded project to bring energy audits and develop efficient lighting (streetlights and home fixtures).

DEPT. OF REDEVELOPMENT & TIF

Unable to eliminate the property tax levy for Redevelopment due to the following:

- Reduced funding from Community Development Block Grant
- Shortfall from 2009 Property Tax Distribution
- Inability for General Fund to make additional reductions in 2011 budget to fund Redevelopment Budget

Tax Increment Financing (TIF)-- Released assessed value with estimated impact of \$3.9M. Dissolved two (2) TIF Districts, also.

ECONOMIC DEVELOPMENT

■ RESIDENTIAL SECTOR

- The Dalton & Modern Apartments - \$18,025,519
Renovation of 57 units of affordable housing.
- Serenity Lakes Apartments - \$12,000,000
Creation of 100 units of independent senior living.
- Volunteers of America - \$5,464,200
Creation of 38 units of independent senior living.
- NSP Rehabilitation - \$1,276,131
Purchase and rehabilitation of 16 foreclosed homes.

Please see Supplement for Detailed Project Descriptions

ECONOMIC DEVELOPMENT, cont'd

■ COMMERCIAL & INDUSTRIAL SECTORS

- Data Center - \$90M
- USX Coke Substitute Project - \$220M
- Gary-Chicago Airport Runway Expansion - \$29.42M
- Mr. Fuel - \$1.5M
- Broadway Corridor (GRIP Project)
- Regional Intermodal Facility - \$400M
- Kirk Yard & CN Rail Expansion, Phase I - \$100M

Please see Supplement for Detailed Project Descriptions

ECONOMIC DEVELOPMENT, cont'd

■ LAKEFRONT & RECREATIONAL SECTORS

- Marquette Park Rehabilitation and Restoration - \$28.19M
- Buffington Harbor Marina, Phase I - \$1.2 (Design)
- Marquette Greenway: Gary Green Link, Grand Cal Trail - \$1.25M
- South Shore Redevelopment Initiative - \$1.5M

Please see Supplement for Detailed Project Descriptions

OUTSTANDING DEBT as of 12-1-2010

The City is concerned about its outstanding debt.

- The PFM report recommended that funds saved from health insurance changes and other initiatives be used to pay down debt. Unfortunately, those savings have not been realized.
- In addition, the City's property tax collections have declined. The decline has contributed to an increase in the amount of debt. As an example, the City had to obtain a \$8.5M loan due to property tax shortfall from a calculation error, while in the same tax year the property tax shortfall due to poor collections resulted in a deficit cash balance and made it impossible to repay inter-fund loans by the statutory deadlines.
- Although Bankruptcy is being considered for cities in distress, other than potential judgments, the majority of the debt for the City of Gary is internal debt, with the exception of RDA which is paid from Casino, not property tax revenues. Much of the city's debt can only be eliminated through increased economic development, better property tax collection rate, forgiveness, or an influx of cash into the General Fund to pay off the debt.

OUTSTANDING DEBT as of 12-1-2010, cont'd

- Internal Debt includes:
 - Inter Fund Loans - \$9.88M is due between City funds and \$10.44M is due to GSD.
 - Due To/Due From Other Banks/Funds - \$6.2M
- Long –Term Debt totals \$10,900,897. The majority of this debt are bonds collateralized by Casino Funds
- RDA - Regional Development Authority - \$7,350,000
- Current Payables due to be paid upon Distribution of 2010 Property Taxes for Medical Claims, and Utilities - \$2.4M

MAJESTIC STAR LITIGATION

- The City expects to resolve the Majestic Star Casinos litigation in the near future. Speculation and generalized statements have been made that cash from the casino settlement will resolve all of the city's financial woes. However, the lack of these funds have also contributed to municipal debt and deficits.
- As now projected, the City will need casino funds to:
 - Complete Contractual Obligations on the Lakefront Marina Access Road
 - Pay Off Arrearages on RDA Obligation
 - Supplement the General Fund to Pay Off Deficits to Other Funds, some which have had deficits since 2003
 - Street Paving and Infrastructure Necessities
 - Bond and Lease payments

SUMMARY

- It should not go unnoticed that the City of Gary has made tremendous strides in reducing its levy as recommended by the PFM report, at a phased-in rate.
- Nevertheless, special attention should be directed to the sustainability of the City, after such reductions. The key component of the city's sustainability is its property tax collection rate and economic development. However, the revenues from property tax collection are more immediate than the return on development.
- Therefore the property tax collection rate is critical to the city of Gary and “key” that it is currently jeopardizing the city's ability to obtain Tax Anticipation Warrants. In addition the City has not received any of the proceeds from County Property Tax Sales in the past 3 years.
- Now that property tax levies will be reduced, it is imperative that governmental units not only receive timely settlements, but also, better collection rates in order to effectively plan and maintain solvency. Perhaps a look should be taken at the laws that govern the length of time allowed to pay the current year's taxes due, excluding special circumstances.

SUMMARY

- The City of Gary's unemployment, foreclosure, and poverty rates are staggering when compared to other communities in Indiana. Given these conditions, there more likely will remain a gap in the City's economic circumstances. Perhaps the DUAB can consider what other states have done to assist its cities in obtaining and maintaining sustainability, when it is found that the above factors that contribute to that entity's existence are obviously different from its governmental counterparts.

QUESTIONS?

“GARY INDIANA: Where We Are Working to Bring the Best Days **YET** to Come!!”